

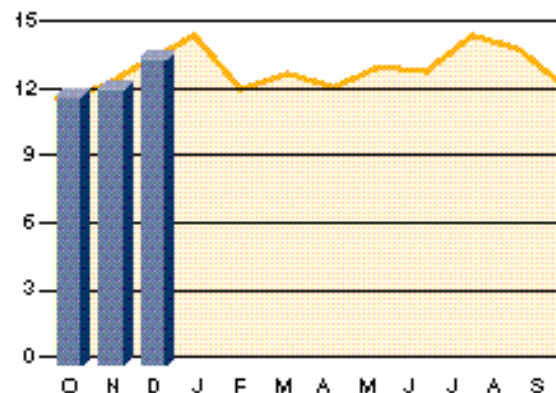
POWER PROGRAM  
POWER PROGRAM

# First Quarter Report

1998

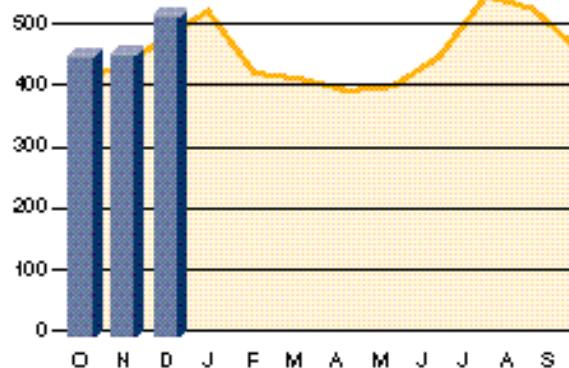
## Total TVA Generation

*billions of kwh*



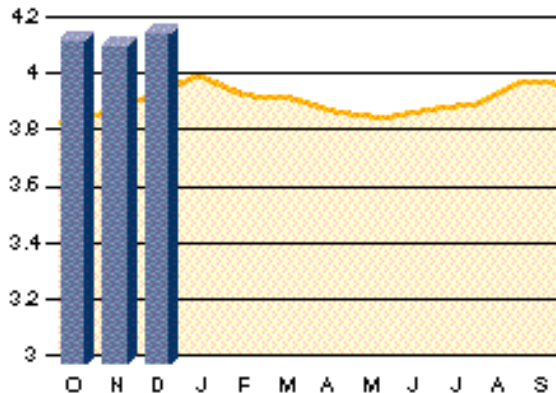
## Total Electric Revenue

*millions of dollars*





## Average Revenue

*cents per kwh*



Tennessee Valley Authority  
400 West Summit Hill Drive  
Knoxville, Tennessee 37902-1499  
6M 1/98

 Fiscal Year 1998  
 Fiscal Year 1997



TVA demonstrated its dedication to meeting the challenges of a restructured marketplace during the first quarter through its achievements in sustaining operational excellence, strengthening our financial position, and serving our customers and the public interest.

We began implementation of a 10-Year Business Plan to reduce TVA's debt in half by 2007, and are on target to decrease our debt by \$1 billion by the end of fiscal year 1998. Operating revenues increased by \$133 million for the three months ending December 31, 1997, compared with the same period last year, primarily due to implementing the rate increase proposed in the 10-Year Business Plan. In addition, we experienced an increase in energy sales of approximately 900 million kWh, or 2.6 percent. We expect annual interest expense to be lowered by \$45 million through a number of refinancings. One December bond issue achieved the lowest cost long-term financing of any public or private company in the past 20 years.

TVA was recognized as one of the "best performers" in a worldwide benchmarking study of transmission system operations and maintenance, comparing TVA to 18 other companies representing 12 nations. We operated all five nuclear units at 100 percent capacity during the month of December, which was the best-ever performance by the plants. TVA also completed a refueling outage at Sequoyah Nu-

clear Plant's Unit 2 in 31 days, a record for similar plants. And we completed the first cycle of operation and the first refueling outage at Watts Bar Nuclear Plant with record performances.

We are dedicated to maintaining TVA's excellent record of performance, productivity and reliability, and increasing our financial strength to ensure that we remain competitive in the years ahead.

Sincerely,



Craven Crowell

**Financial Highlights** (millions)

Three Months Ended December 31	1997	1996
Operating revenues	\$ 1,465	\$ 1,332
Operating expenses	(1,010)	(895)
Operating income	455	437
Other income (expense), net	27	2
Interest expense	497	503
<b>Net (loss) income</b>	<b>\$ (15)</b>	<b>\$ (64)</b>

**Sales of Electricity** (millions - kWh)

Three Months Ended December 31	1997	1996
Municipalities and cooperatives	29,054	27,328
Industries directly served	4,742	4,265
Federal agencies	1,059	2,378
<b>Total sales of electricity</b>	<b>34,855</b>	<b>33,971</b>

## RESULTS OF OPERATIONS

TVA incurred a net loss of \$15 million for the first quarter of fiscal year 1998, an improvement of \$49 million from the net loss of \$64 million for the same period last year.

### Operating Revenues

Operating revenues for the three months ended December 31, 1997, were \$1,465 million compared with \$1,332 million for the same period last year. The \$133 million increase was primarily due to a rate increase effective October 1, 1997, coupled with an increase in energy sales of approximately 900 million kWh (2.6 percent).

### Operating Expenses

Operating expenses increased \$115 million from \$895 million for the three months ended December 31, 1996, to \$1,010 million for the three months ended December 31, 1997. Net fuel and purchased power expense increased \$47 million during the period as a result of an increase in total generation and a decrease in hydro generation. Operating and maintenance expenses increased \$55 million from \$302 million to \$357 million for the three months ended December 31, 1996 and 1997, respectively, as a result of the timing of nuclear plant outages and an increase in other operating expenses.

### Interest Expense

Net interest expense declined \$6 million for the three months ended December 31, 1997, compared with the same period last year. This reduction resulted from lower short-term interest rates and greater interest income on short-term investments.

## FINANCIAL POSITION

Net cash provided by operations declined \$47 million from \$124 million to \$77 million for the three months ended December 31, 1996 and 1997, respectively. While income improved by \$49 million for the reporting period and items not requiring cash increased by \$16 million, other working capital requirements increased by \$112 million primarily as a result of the timing of first quarter accruals and payments.

Net cash used in investing activities declined \$56 million from \$183 million for the first quarter of fiscal year 1997 to \$127 million for the first quarter of fiscal year 1998. Cash used for construction expenditures declined \$51 million (30 percent) for the same period.

Cash flows from financing activities increased \$854 million from a \$159 million decrease in net borrowings and other for the three month period ending December 31, 1996, to a \$695 million increase in net borrowings and other for the three month period ending December 31, 1997. This change primarily reflects a \$645 million increase in cash and cash equivalents during the period in anticipation of the redemption of certain debt issues in January.

## Balance Sheets (Unaudited)

	December 31 1997	September 30 1997
<b>ASSETS</b>		
	(MILLIONS)	
<b>Current assets</b>		
Cash and cash equivalents	\$ 944	\$ 299
Accounts receivable	681	701
Inventories at average cost and other		
Fuel	121	112
Other	303	287
Total current assets	<u>2,049</u>	<u>1,399</u>
<b>Property, plant, and equipment</b>		
Completed plant	28,614	28,528
Less accumulated depreciation	<u>(7,357)</u>	<u>(7,178)</u>
Net completed plant	21,257	21,350
Construction in progress	584	605
Deferred nuclear generating units	6,304	6,303
Nuclear fuel and capital lease assets	1,001	1,040
Total property, plant, and equipment	<u>29,146</u>	<u>29,298</u>
<b>Investment funds</b>	<b>558</b>	561
<b>Deferred charges and other assets</b>		
Loans and other long-term receivables	125	121
Debt issue and reacquisition costs	756	1,096
Other deferred charges	1,642	1,209
Total deferred charges and other assets	<u>2,523</u>	<u>2,426</u>
<b>Total assets</b>	<u><b>\$34,276</b></u>	<u>\$ 33,684</u>
<b>LIABILITIES AND PROPRIETARY CAPITAL</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 319	\$ 468
Accrued liabilities	142	161
Accrued interest	454	499
Discount notes	2,598	2,151
Current maturities of long-term debt	574	574
Total current liabilities	<u>4,087</u>	<u>3,853</u>
<b>Other liabilities</b>	<b>2,165</b>	1,704
<b>Long-term debt</b>		
Public bonds—senior	20,307	20,354
Federal Financing Bank—senior	3,200	3,200
Public bonds—subordinated	1,100	1,100
Unamortized discount and other	<u>(528)</u>	<u>(502)</u>
Total long-term debt	<u>24,079</u>	<u>24,152</u>
<b>Proprietary capital</b>		
Appropriation investment	583	588
Retained earnings reinvested in power program	3,362	3,387
Total proprietary capital	<u>3,945</u>	<u>3,975</u>
<b>Total liabilities and proprietary capital</b>	<u><b>\$34,276</b></u>	<u>\$ 33,684</u>

## Statements of Income (Unaudited)

	Three Months Ended December 31	
	1997	1996
	(MILLIONS)	
<b>Operating revenues</b>		
Sales of electricity		
Municipalities and cooperatives	\$ 1,290	\$ 1,146
Industries directly served	127	117
Federal agencies	31	51
Other	17	18
Total operating revenues	<u>1,465</u>	<u>1,332</u>
<b>Operating expenses</b>		
Fuel and purchased power, net	329	282
Operating and maintenance	357	302
Depreciation and amortization	258	244
Tax-equivalents	66	67
Total operating expenses	<u>1,010</u>	<u>895</u>
<b>Operating income</b>	<b>455</b>	437
Other income (expense), net	27	2
Income before interest charges	<u>482</u>	<u>439</u>
<b>Interest expense</b>		
Interest on debt	494	499
Amortization of debt discount, issue, and reacquisition costs, net	19	24
Allowance for funds used during construction	<u>(16)</u>	<u>(20)</u>
Net interest expense	<u>497</u>	<u>503</u>
<b>Net (loss) income</b>	<u><b>\$ (15)</b></u>	<u>\$ (64)</u>

## Statements of Cash Flows (Unaudited)

<b>Cash flows from operating activities</b>		
Net (loss) income	\$ (15)	\$ (64)
Items not requiring cash	317	301
Other changes, net	<u>(225)</u>	<u>(113)</u>
Net cash provided by operations	<u>77</u>	<u>124</u>
<b>Cash flows from investing activities</b>		
Construction expenditures	(117)	(168)
Allowance for funds used during construction	16	20
Other, net	<u>(26)</u>	<u>(35)</u>
Net cash used in investing activities	<u>(127)</u>	<u>(183)</u>
<b>Cash flows from financing activities</b>		
Borrowings, net	397	(144)
Other	298	(15)
Net cash provided by (used in) financing activities	<u>695</u>	<u>(159)</u>
<b>Net change in cash and cash equivalents</b>	<u><b>\$ 645</b></u>	<u>\$ (218)</u>